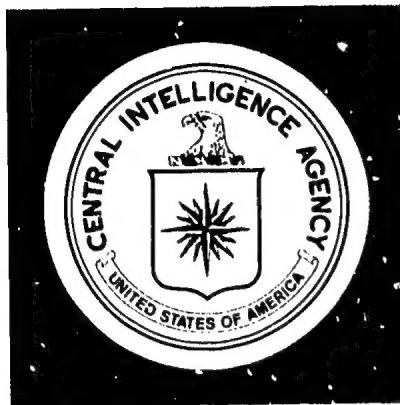


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Economic Intelligence Weekly

Secret

CIA No. 8134/74
17 July 1974

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Note: Comments and queries regarding this publication are welcomed.

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ECONOMIC INTELLIGENCE WEEKLY

Articles

SOVIET GRAIN PROSPECTS IMPROVED

A Soviet announcement at a June meeting of the International Wheat Council that Moscow will buy no more wheat in FY 1975 now seems premature, even though above-normal rains in June have raised prospects for the Soviet grain crop.

If normal weather prevails for the remainder of the growing season, the USSR should not need Western grain. Favorable June weather has raised the CIA crop forecast to 205 million tons of grain — about 10% below the 1973 record but enough to meet minimum domestic and export requirements.

(Last week the USDA raised its estimate from 205 million to 215 million tons.) Moist weather, however, has spurred an outbreak of winter wheat rust disease in the Ukraine, and there is one chance in three that the rust could cause a major reduction in yields. In addition, important eastern grain regions need warm weather if the late-planted crop is to mature before killing frosts in the fall.

Moscow now holds contracts for only about 700,000 tons of US wheat, which were deferred from FY 1974. According to the Trade, the Soviets may be trying to postpone delivery of most of this wheat to FY 1976 or to swap wheat for other grain. A major deterioration in crop prospects in late July and August would force the Soviets to import this year. Even if the crop is good, the USSR, with a large surplus of hard currency, might be induced to purchase foreign wheat if prices dip below current high levels.

CIA Forecasts
of Soviet Grain Crops

	Million Tons
1 Apr	195
1 Jun	190
1 Jul	205

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IRAN'S NUCLEAR POWER PROGRAM

Iran is moving rapidly with plans to install 23,000 megawatts (MW) of nuclear electric generating capacity by the mid-1980s. Only the United States, Japan, West Germany, France, and the USSR would have larger nuclear power programs.

Iran expects to obtain 10,000 MW of its nuclear capacity from the United States. The first four plants (600-800 MW each) are to be operational between

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1979 and 1981. Four slightly larger plants (800-1,000 MW each) are planned for 1981-83, although some slippage is likely. Presumably the remaining one-third of capacity would be scheduled later. Because of the short time left before the first reactor is to be on line, Iran has limited bidding for the first group of reactors to only a few manufacturers.

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Iran may find it difficult to line up enriched uranium for its nuclear program, given the developing scarcity of Free World enrichment capacity. Tehran had requested enough uranium enrichment services from the United States to operate 7,200 MW of capacity for 10 years but could obtain only one-third this amount.

As part of last month's French-Iranian cooperation arrangement, France has agreed to supply Iran with five 1,000-MW nuclear power stations worth \$1.2 billion and to assist in training Iranian personnel to operate them. Enrichment services required for these plants probably will be furnished by the large Eurodif enrichment facility due to start up about 1980.

A key aspect of the French-Iranian agreement is a provision that the Iranian plants are to receive construction priority over domestic French nuclear plants if, as appears likely, slippage occurs in the sizable French nuclear power program. The first French plant probably will not be generating electricity much before 1985. Iran views the French reactors as a follow-on to the initial set of US plants.

While the United States and France will provide most of the assistance in nuclear development, Iran still has not decided how to obtain the remaining 8,000 MW of capacity. The Soviet Union, Canada, West Germany, and Sweden all have active sales programs and could play a part in the Iranian program.

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ARAB INVESTMENT PATTERN CONTINUES STABLE

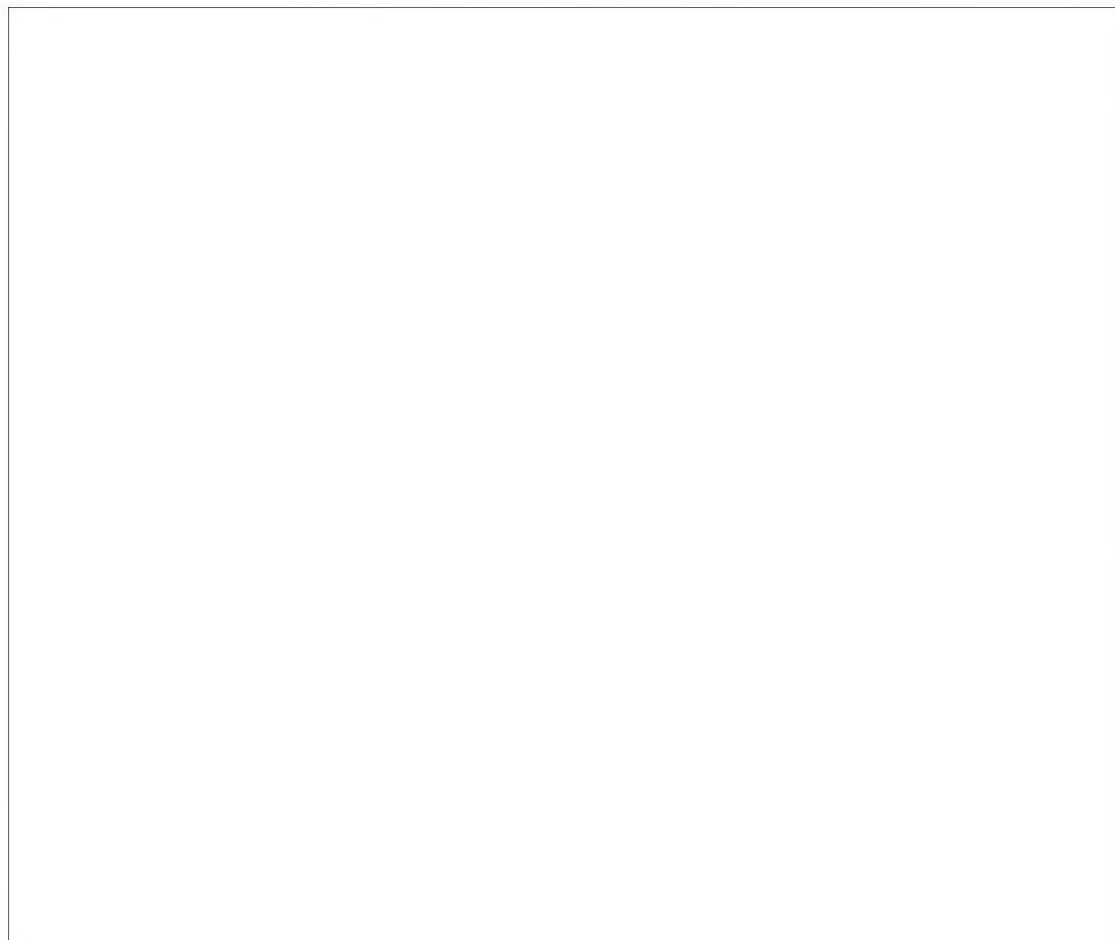
Foreign assets of the major Arab oil producers – Saudi Arabia, Kuwait, Libya, and the United Arab Emirates – increased sharply from \$13.1 billion in December 1973 to \$22.5 billion in June 1974. Their composition remained relatively stable, and the currency denomination changed only slightly as Eurodollars and sterling holdings increased. Two changes occurred:

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- Although the share of investment in US dollar assets remained constant, US equity and real estate holdings increased significantly.
- Time deposits and certificates of deposit, formerly placed for periods of only about one or two years, are now being increasingly placed for four or five years.

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Arab producers are still unwilling to place funds directly in non-Islamic developing countries, and discussions with the World Bank Group and the IMF have not yet led to a substantial flow of funds into these institutions. [redacted]

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PHILIPPINES: NEGOTIATIONS ON NEW ECONOMIC AGREEMENT WITH THE US

In talks now under way in Manila, US negotiators are seeking favorable treatment for US investment, and the Filipinos are interested in trade concessions.

The expiration this month of the Laurel-Langley Agreement brings to a close a period of special economic relations that included parity treatment for American investment and reciprocal trade preferences. Under the parity provision, Americans were treated equally with Filipinos in the utilization of public lands and natural resources. Filipinos, however, had increasingly regarded parity as an infringement of sovereignty arrived at under conditions of Philippine weakness.

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Although American business in the Philippines accounts for about three-fourths of total foreign investment, the impact of Laurel-Langley termination on US interests will be small. Most US investment has gone into non-parity areas. Substantially less than \$70 million of the more than \$1 billion in US investment is likely to be withdrawn from the Philippines.

The lapse of reciprocal trade preferences is of immediate consequence only to the Filipinos. They provided a stable market for traditional Philippine exports, but they did not spur development of new export lines, as they were intended to do.

The major Philippine commodity affected by the end of preferences is sugar. The Philippines became the principal foreign supplier of sugar to the US market under the Laurel-Langley treaty and the US Sugar Act. In 1973, sugar accounted for more than 40% of Philippine exports to the United States. In the absence of a new sugar act, the Philippines will have to compete with other foreign suppliers beginning next year. In the current sellers' market, this presents few problems. If world sugar prices fall to 1973 levels, however, the Philippines would face severe competition from other producers.

The Philippines also lose a substantial preference for tobacco, and their plywood now faces higher duties than similar products from Taiwan and South Korea.

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JAPAN'S TRADE BALANCE SHIFTING INTO SURPLUS

Japan's trade deficit for the first half of 1974 was \$2.8 billion, but Tokyo expects a \$1 billion trade surplus during the second half.

Higher oil prices more than offset record export gains during the first half of 1974. Imports during the period were 85% above levels of a year earlier, with higher oil costs accounting for half of the increase. Non-oil imports rose 43%, primarily because of higher commodity prices. Overall import volume increased only about 8%.

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Japan: Trade Trends

Quarter	Total			Oil			Non-Oil			Million US \$		
	Ex-ports	Im-ports	Bal- ance	Ex-ports	Im-ports	Bal- ance	Ex-ports	Im-ports	Bal- ance	Ex-ports	Im-ports	Bal- ance
	1973 I	7,414	6,364	1,050	13	1,054	-1,041	7,401	5,310	2,091		
II	8,513	7,920	593	15	1,278	-1,263	8,498	6,642	1,856			
III	9,427	8,422	1,005	22	1,430	-1,408	9,405	6,992	2,413			
IV	10,910	9,870	1,040	20	2,003	-1,983	10,890	7,867	3,023			
1974 I	10,123	11,973	-1,850	19	4,035	-4,016	10,104	7,938	2,166			
II	13,466	14,394	-928	20	5,260	-5,240	13,446	9,134	4,312			

The growth in imports will slow sharply during the second half as domestic demand remains weak and commodity prices decline. Nonferrous metal prices, for example, have fallen sharply in recent weeks, partly reflecting a decline in Japanese demand. Oil prices have about reached their peak, and oil imports are now declining.

Japan's export drive is going strong. Overseas sales are now running 50% above levels of a year earlier, and similar growth seems likely for at least a few more months. Although higher prices account for much of the growth, the volume of exports gained almost 20% in May and June compared with the same period in 1973. Exports to the US and West European market have accelerated in recent months, but most of the increase is going to less developed countries.

If exports continue their rapid growth, Japan will register a substantial surplus during the second half of 1974. The non-oil trade surplus is already large, amounting to \$6.5 billion during the first six months of 1974 compared with \$3.9 billion for the same 1973 period. Current trade trends indicate that the non-oil surplus for the year as a whole could reach \$17 billion compared with about \$9 billion last year. This Japanese effort will come under increasing criticism from its trading partners.

Japan's \$200 million surplus with the United States for the first half of 1974 may increase by \$1 billion in the second half. The growth in imports from the United States is already tailing off, while sales in the US market are up sharply from levels of a year earlier because of higher prices and higher motor vehicle shipments. Although motor vehicle export volume should slow in the months ahead, other export items are beginning to show signs of strength.

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DEVELOPED COUNTRIES' INDUSTRIAL OUTPUT TURNS UP

Industrial output in most major countries showed a slight upturn in April and May. Because of special factors, however, the upturn in industrial output is not evidence of a general industrial recovery.

- Japan's industrial production, after dropping for five months, rose by nearly 2% in May. Nevertheless, output is still 3% below the October 1973 level.
- French output, after falling for three consecutive months, recovered to pre-oil-crisis levels in May.
- Italy's production rebounded by 2% in April after a drop of 3% in February.
- Britain's output has grown steadily from the low levels reached during January's coal strike and has leveled off just below last year's peak.
- West German output moved up only slightly in April and May, continuing its stagnant performance since last October.
- Only Canada has failed to increase in the second quarter; the sluggish Canadian performance, however, came after steady growth through the first quarter.

Indexes of Industrial Production (Seasonally Adjusted)

	<u>October 1973 = 100</u>					
	Oct 1973	Jan 1974	Feb 1974	Mar 1974	Apr 1974	May 1974
United States	100.0	99.1	98.3	98.3	98.8	99.2
Japan	100.0	98.3	98.4	96.7	95.6	97.3
West Germany	100.0	99.4	100.0	98.3	99.4	100.0
France	100.0	102.4	101.6	100.0	99.2	101.6
United Kingdom	100.0	89.7	93.8	97.3	98.7	97.7
Italy	100.0	103.3	100.0	101.4	103.7	N.A.
Canada	100.0	102.6	103.2	103.4	102.5	N.A.

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Production in the United Kingdom has been stimulated by a rebuilding of inventories drawn down during the coal strike. In Japan, a sharp increase in export volume and consumer buying, stimulated by wage hikes averaging 30%, were the major causes of the upswing. Consumer demand will probably flatten as continuing inflation cuts into purchasing power. The upturn in France resulted from sharp production increases in steel, chemicals, and capital goods. French steel production fell in June, and continued increases in chemical and capital goods production will be more difficult because of capacity constraints. In Germany, tight money and slack domestic demand continue to retard output growth, while sharp increases in export volume have prevented an even greater decline in production.

In most industrial countries, inflation continues to cut into real incomes, consumer confidence remains depressed, inventories are high and growing, and restrictive government policies to combat inflation continue to depress demand.

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Notes

Decisions Approaching on Concorde

Prime Minister Harold Wilson and President Giscard d'Estaing are scheduled to meet on 19 July to decide the Concorde's fate.

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The Concorde program faces several important hurdles, including US acceptance of the aircraft's noise levels.

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Soviet-Japanese Timber Contract Expected Soon

A Soviet delegation now in Tokyo is expected to sign a contract for Japanese purchase of Siberian timber. Negotiations on prices have held up the signing.

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In 1974-78 the USSR will deliver 590 million cubic feet of wood worth about \$1.1 billion.

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Japan Takes on IBM

Nippon-Electric has announced a new line of computers - Series 77 - which will compete on the Japanese market with IBM's 370-series computers. The Series-77 was developed under a license agreement with Honeywell and closely resembles a new Honeywell family of computers. Two other Japanese firms, Mitsubishi and Fujitsu, also are developing computer families to be competitive with IBM and other foreign manufacturers when a more liberal Japanese computer import policy goes into effect next year.

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INTERNAL ECONOMIC INDICATORS

GNP*
Constant Market Prices

	Average Annual Growth Rate Since				
	Latest Quarter	Percent Change from Previous Quarter	1970	1 Year Earlier	Previous Quarter
United States	74 I	-1.6	3.9	0.2	-6.3
Japan	74 I	-5.0	5.8	-3.6	-18.6
West Germany	74 I	1.5	3.3	-0.7	6.1
France	73 IV	1.8	5.8	5.7	7.3
United Kingdom	74 I	-3.5	1.9	-4.4	-13.3
Italy	73 IV	1.9	3.7	5.3	7.7
Canada	74 I	1.7	5.4	3.0	7.0

WHOLESALE PRICES
Industrial

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier
United States	Jun 74	2.1	8.8	21.9	35.4
Japan	Jun 74	1.3	11.2	35.3	11.2
West Germany	May 74	1.2	7.1	14.4	10.5
France	May 74	-0.5	13.2	37.0	27.7
United Kingdom	May 74	2.1	10.9	24.5	35.8
Italy	May 74	0.7	14.5	43.0	35.6
Canada	Apr 74	2.6	11.1	23.0	34.6

INDUSTRIAL PRODUCTION*

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	May 74	0.4	4.6	0.4	-0.5
Japan	May 74	1.8	7.3	2.3	-8.0
West Germany	May 74	0.6	3.5	0	0
France	May 74	2.4	6.1	2.4	-1.1
United Kingdom	May 74	-1.1	2.2	0.2	22.4
Italy	Apr 74	2.2	5.7	13.7	6.6
Canada	Apr 74	-0.8	6.4	4.6	8.0

CONSUMER PRICES

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Month's Earlier
United States	May 74	1.0	6.0	10.7	12.1
Japan	May 74	0.3	11.3	23.1	15.7
West Germany	Jun 74	0.4	0.3	6.9	6.5
France	May 74	1.2	7.9	13.5	17.1
United Kingdom	May 74	1.4	10.5	16.0	25.3
Italy	May 74	1.4	9.4	10.2	23.2
Canada	Jun 74	1.3	6.5	11.4	15.5

RETAIL SALES*
Current Prices

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Jun 74	-0.7	9.2	7.6	10.7
Japan	Mar 74	-4.8	11.1	6.6	-1.8
West Germany	Mar 74	-4.8	7.1	1.9	9.4
France	Mar 74	0.8	7.1	9.8	13.8
United Kingdom	Mar 74	1.3	12.0	9.4	6.5
Italy	Dec 73	3.0	17.2	25.5	47.0
Canada	Apr 74	0.3	11.3	10.1	19.3

MONEY SUPPLY*

	Average Annual Growth Rate Since				
	Latest Month	Percent Change from Previous Month	1970	1 Year Earlier	3 Months Earlier**
United States	Jun 74	0.1	6.8	5.8	10.7
Japan	Apr 74	-0.6	17.4	10.5	16.7
West Germany	Apr 74	0.3	9.1	0.4	9.5
France	Feb 74	-0.3	11.9	9.0	14.9
United Kingdom	May 74	-0.2	9.1	2.5	4.7
Italy	Dec 73	2.6	21.2	17.9	22.1
Canada	May 74	1.3	13.9	13.3	20.3

MONEY-MARKET RATES

	Percent Rate of Interest				
	Latest Date	1 Year Earlier	3 Months Earlier	1 Month Earlier	
United States	Jul 10	9.00	8.00	8.50	9.00
Japan	Jul 3	12.62	7.25	12.00	12.50
West Germany	Jul 10	9.10	13.88	10.03	9.26
France	Jul 3	14.25	9.00	11.50	12.88
United Kingdom	Jul 10	13.27	8.50	13.92	12.26
Canada	Jul 10	11.50	7.35	10.16	11.05
Euro-Dollars	Jul 10	13.91	9.76	10.44	11.62
Representative Rates					
Prime finance paper					
Call money					
Interbank loans (3 Months)					
Call money					
Local authority deposits					
Finance paper					
Three-month deposits					

*Seasonally adjusted.

**Average for latest 3 months compared with average for previous 3 months.

EXTERNAL ECONOMIC INDICATORS

EXPORTS*
f.o.b.

	Latest Month	Cumulative			
		Million US \$	1974	1973	Percent Change
United States	May 74	7,630	30,251	20,384	45.0
Japan	May 74	4,677	19,979	13,814	44.8
West Germany	May 74	8,499	30,400	24,734	47.4
France	May 74	3,845	18,103	13,800	31.6
United Kingdom	Jun 74	3,200	17,111	13,613	27.1
Italy	May 74	2,183	11,015	7,508	40.7
Canada	May 74	2,802	12,812	10,077	20.9

EXPORT PRICES

US\$

	Average Annual Growth Rate Since					
	Percent Change	Latest Month	Month	1970	1 Year	3 Months
United States	0.2	May 74	11.2	26.1	13.2	
Japan	3.1	Apr 74	10.9	35.0	7.8	
West Germany	5.1	Apr 74	15.1	27.8	102.3	
France	-5.9	Jun 74	11.1	18.9	35.2	
United Kingdom	-2.6	Jan 74	7.7	12.1	-10.0	
Italy	-2.4	Nov 73	10.5	21.3	12.4	
Canada	7.2	Mar 74	14.2	41.3	86.1	

IMPORTS*

f.o.b.

	Latest Month	Cumulative			
		Million US \$	1974	1973	Percent Change
United States	May 74	8,407	38,249	27,293	40.1
Japan	May 74	4,903	21,540	11,398	89.0
West Germany	May 74	8,026	25,673	19,298	33.0
France	May 74	4,492	19,859	13,281	49.5
United Kingdom	Jun 74	4,422	23,234	15,498	49.9
Italy	May 74	2,868	14,454	8,517	69.7
Canada	May 74	2,635	12,196	9,220	32.0

EXPORT PRICES

National Currency

	Average Annual Growth Rate Since					
	Percent Change	Latest Month	Month	1970	1 Year	3 Months
United States	-0.2	May 74	11.2	26.1	13.2	
Japan	1.5	Apr 74	9.2	41.4	35.0	
West Germany	1.3	Apr 74	4.4	13.6	31.9	
France	3.2	Jan 74	8.0	17.6	31.3	
United Kingdom	1.5	Jan 74	10.0	18.7	26.9	
Italy	2.0	Nov 73	8.7	22.8	22.9	
Canada	6.6	Mar 74	11.9	37.8	66.8	

TRADE BALANCE*
f.o.b./f.o.b.

	Latest Month	Cumulative (Million US \$)			
		Million US \$	1974	1973	Change
United States	May 74	-777	2	-909	911
Japan	May 74	-226	-1,567	2,416	-3,983
West Germany	May 74	2,473	13,793	5,435	5,357
France	May 74	-637	-1,096	519	-2,215
United Kingdom	Jun 74	-1,141	-6,123	-1,885	-4,238
Italy	May 74	-686	-3,439	-1,010	-2,429
Canada	May 74	167	616	856	-242

IMPORT PRICES

National Currency

	Average Annual Growth Rate Since					
	Percent Change	Latest Month	Month	1970	1 Year	3 Months
United States	1.3	May 74	18.9	48.7	79.4	
Japan	1.3	Apr 74	17.0	83.4	153.9	
West Germany	-0.6	Apr 74	5.9	23.3	19.4	
France	14.9	Jan 74	11.3	33.0	127.4	
United Kingdom	5.9	Jan 74	17.8	49.8	75.9	
Italy	3.5	Nov 73	14.8	42.3	30.8	
Canada	11.9	Mar 74	11.1	33.8	103.0	

BASIC BALANCE**

Current and Long-Term-Capital Transactions

	Latest Period	Cumulative (Million US \$)			
		Million US \$	1973	1972	Change
United States	74 I	2,065	2,065	-1,006	3,071
Japan	May 74	-1,322	-7,211	-3,594	-3,616
West Germany	Apr 74	860	3,253	917	2,336
France	73 IV	-352	-2,391	-369	-2,022
United Kingdom	73 IV	-1,394	-3,164	-1,954	-1,210
Italy	73 II	-336	639	971	-332
Canada	74 I	-195	-195	-191	-4

EXCHANGE RATES Spot Rate

As of 12 July 74

	Percent Change from				
	US \$	Per Unit	Dec 66	18 Dec	19 Mar
Japan (Yen)	0.0034		24.79	6.04	-9.47
West Germany (Deutsche Mark)	0.3911		55.57	26.04	10.45
France (Franc)	0.2075		2.77	5.38	-5.25
United Kingdom (Pound Sterling)	2.3855		-14.52	-8.45	-3.07
Italy (Lira)	0.0016		-3.06	-9.77	-12.32
Canada (Dollar)	1.0252		11.14	2.75	2.76
					-0.16

OFFICIAL RESERVES

	Latest Month	Billion US \$			
		End of	Billion US \$	Jun 1970	1 Year Earlier
United States	May 74	14.9	14.5	12.9	14.6
Japan	Jun 74	13.4	4.1	15.2	12.4
West Germany	May 74	34.4	8.8	31.4	32.0
France	May 74	8.2	4.4	11.6	8.1
United Kingdom	Jun 74	6.7	2.8	7.0	6.4
Italy	May 74	5.5	4.7	6.2	5.4
Canada	Jun 74	6.1	4.3	6.0	6.1

*Seasonally adjusted.

**Converted into US dollars at current market rates of exchange.

17 July 1974

TRADE-WEIGHTED EXCHANGE RATES***

As of 12 July 74

	Percent Change from				
	Dec 66	18 Dec	19 Mar	5 Jul	
United States	-16.10	-6.77	-0.16	0.29	
Japan	14.08	0.42	-11.43	-1.04	
West Germany	31.47	14.45	9.42	-0.38	
France	-20.11	-6.66	-9.10	-0.33	
United Kingdom	-34.22	-20.03	-5.66	-0.04	
Italy	-24.92	-23.58	-16.67	0.16	
Canada	8.08	1.49	3.13	-0.08	

***Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange-rate variations among the major currencies.